

Message Text

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TO SECSTATE WASHDC 6283
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UNCLAS SAO PAULO 1380

E.O. 11652: N/A

TAGS: BEXP, BR

SUBJECT: MECANICA 75

REF: SAO PAULO 1342: STATE 144001

1. THE FOLLOWING INFORMATION AND COMMENTS ON COMMERCIAL IMPLICATIONS OF TERM OF RESPONSIBILITY WERE DEVELOPED THROUGH RECENT DISCUSSIONS WITH LEADING BANKS IN SAO PAULO AND REVIEW OF PAST EXHIBITIONS.

2. ALL COMMERCIAL BANKS ARE WILLING TO EXTEND TERM OF RESPONSIBILITY TO ENABLE THEIR CLIENTS OBTAIN PHYSICAL POSSESSION OF GOODS BEFORE NATIONALIZATION PROCESS IS COMPLETED. UNDER THE "TERM", A BANK ASSUMES RESPONSIBILITY WITH THE FEDERAL REVENUE DEPARTMENT OF THE MINISTRY OF CINANCE TO PAY, IF NECESSARY, IMPORT AND OTHER TAXES ON BEHALF OF ITS CLIENTS. HOWEVER, BANKS WILL PAY THESE TAXES ONLY IF THE CLIENT EITHER GOES BANKRUPT OR DECIDES NOT TO BUY THE MACHINERY BEFORE THE EXPIRATION OF THE 240 DAY PERIOD THAT "TERM" IS IN EFFECT, SINCE BANKS NORMALLY PROVIDE "TERM" ONLY FOR PRIME CUSTOMERS, POSSIBILITY ON DEFAULT IS REMOTE.

3. ALL BANKS QUERIED CONFIRMED THAT UNDER TERM OF RESPONSIBILITY BUYER CAN MAKE IMMEDIATE USE OF MACHINERY OR EQUIPMENT DURING NATIONALIZATION PROCESS, BUT "TERM" IN NO WAY ASSURES PROMPT UNCLASSIFIED

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REMITTANCE.

4. DOLLAR REMITTANCES MAY BE LEGALLY MADE ONLY AFTER GOODS HAVE PASSED THROUGH CUSTOMS WITH RELEASE OF THE FOURTH COPY OF THE IMPORT DECLARATION, E.G., "DECLARACAO DE IMPORTACAO" (SEE RIO DE JANEIRO 0499). BUYER THEN SUBMITS "DECLARACAO" AND OTHER RELEVANT DOCUMENTS TO THE COMMERCIAL BANK FOR FOREIGN EXCHANGE BUT THE COMMERCIAL BANK MUST FORWARD THESE DOCUMENTS TO THE CENTRAL BANK REQUESTING AUTHORIZATION TO MAKE THE EXCHANGE. AUTHORIZATION IS USUALLY GRANTED WITHIN 15 DAYS AND NONE OF THE COMMERCIAL BANKS APPROACHED REPORTED UNDUE DELAY ON THE PART OF THE CENTRAL BANK. THEY ALL NOTED THAT MOST DELAYS OCCUR BETWEEN APPLICATION FOR IMPORT LICENSE AND ISSUANCE OF "DECLARACAO" (POST WILL ELABORATE ON REASONS FOR THESE DELAYS IN CABLE BEING PREPARED IN RESPONSE TO STATE 142640).

5. ALTHOUGH NO DOLLAR REMITTANCES CAN BE MADE LEGALLY UNTIL NATIONALIZATION IS COMPLETED, EXPORTERS MAY REQUIRE BUYERS TO DEPOSIT FULL OR PARTIAL PAYMENT IN BLOCKED CRUZEIRO ACCOUNTS. SOME BANKS, ARE WILLING TO SET UP BLOCKED ACCOUNTS AND GIVE THE EXPORTER A LETTER OF GUARANTEE (CARTA DE FIANCA). ACCORDING TO COMMERCIAL BANKS, USUALLY BUYERS AGREE TO DEPOSIT INTO BLOCKED ACCOUNTS ONLY FOR PURCHASES OF A FEW THOUSAND DOLLARS.

6. COMMENT: THE TERM OF RESPONSIBILITY MAY FACILITATE SALES AT MECANICA BUT NOT PAYMENT. THE TERM OFFERS BUYER OPPORTUNITY FOR IMMEDIATE POSSESSION AND SELLER WAY TO AVOID STORAGE CHARGES. HOWEVER, THE "TERM" MAY ACT TO PROLONG REMITTANCES. THE BRAZILIAN BUYER, CONFRONTING NO DEFINITE FINANCIAL OBLIGATION UNTIL THE END OF THE 240 DAY PERIOD AND ENJOYING POSSESSION OF THE GOODS IN HIS PLANT TO GENERATE INCOME DURING THIS PERIOD, HAS NO INCENTIVE TO EXPEDITE NATIONALIZATION. ON THE CONTRARY, HE MAY PROLONG THE PROCESS FURTHER BY TAKING ADVANTAGE OF THE 240 DAY PERIOD TO APPLY FOR SPECIAL IMPORT PRIVILEGES FROM CDI, SUDENE, ETC., SUCH AS EXEMPTIONS ON ALL DUTIES AND TAXES. BUYERS AT MECANICA WILL PROBABLY SEEK ALL POSSIBLE GOVERNMENT EXEMPTIONS AND INCENTIVES BECAUSE GOODS EXHIBITED THERE ARE GENERALLY COSTLY AND CARRY HIGH DUTIES AND TAXES. THIS APPEARS TO HAVE HAPPENED WITH MANY OF THE SALES MADE AT THE U.K. SOLO EXHIBIT, AUGUST 1974. THE "TERM" WAS USED TO RELEASE ALL GOODS SOLD (MAINLY MACHINE TOOLS) BUT TO DATE OVER 100 OF THE 300 EXHIBITORS UNCLASSIFIED

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HAVE NOT BEEN PAID. THERE IS APPARENTLY LITTLE SELLERS CAN LEGALLY DO TO ASSURE PROMPT PAYMENT. REQUIRING BUYERS TO DEPOSIT INTO BLOCKED ACCOUNTS MAY ASSURE EVENTUAL PAYMENT BUT DOES NOTHING TO ACCELERATE NATIONALIZATION. THERE ARE OTHER WAYS BUYERS CAN AVOID OR COVER FOR LOSSES FROM DELAYED REMITTANCES, SUCH AS: COMPLETING THE SALE AND INITIATING THE NATIONALIZATION PROCESS BEFORE EQUIPMENT IS EXHIBITED; OR, BY INCLUDING CARRYING CHARGES FOR 240-360 DAYS IN SALE PRICE. POST WILL CONTINUE MONITO-

RING USE OF "TERM" AND INVESTIGATING REMITTANCE PROBLEM AND WILL
FORWARD FURTHER INFORMATION WHEN AVAILABLE.
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